

**BOARD OF INVESTMENT TRUSTEES  
MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS**

**MINUTES – OPEN SESSION**

December 2, 2005  
101 Monroe Street, 15<sup>th</sup> floor  
Rockville, Maryland

**Board Members Present:**

Tim Firestine, Chair  
Sharon Cayelli  
Gino Renne  
Sandra Kaiser  
Mark Barnard  
Art Spengler  
Walter Bader  
Steve Farber  
Cora Ingram  
Kelda Simpson  
Joe Adler  
Beverley Swaim-Staley  
Jeff Buddle

**Staff:**

Linda Herman  
Daniel Weiss  
Joanne Tsai

**Others Present:**

Mark Brubaker, Wilshire Associates  
Amy Moskowitz, General Counsel to the Board

***CALL TO ORDER***

Mr. Firestine called the open session of the Board to order at 9:40 a.m.

***APPROVAL OF MINUTES***

The Board unanimously approved the minutes of the September 9, 2005 open session.

***APPRECIATION AWARD***

The Board presented an award to Thuan Vu, staff's information technology support, for his outstanding efforts in the use of technological innovations to assist the Board in meeting its goals.

***INVESTMENT COMMITTEE REPORT***

Mr. Barnard presented to the Board the report on the Investment Committee meeting and the items recommended for Board action.

**Bridgewater Guideline Changes/Derivatives Policy Change:** Ms. Herman presented the recommendation to expand Bridgewater's allowable tracking error target from 1.5% to 3%. The changes to their guidelines would result in their risk level (as measured by standard deviation) remaining the same and their correlation to the benchmark staying at its present level, 0.98. The change will provide Bridgewater the opportunity to increase their positions in the securities and sectors which they feel will outperform. She also recommended a change to the Derivatives Policy to clarify the use of forwards. The Board unanimously approved the following resolution:

**0512-02      *Resolved, That the Board approves amending Bridgewater's guidelines, as attached, to allow their tracking error target to increase from 1.5% to 3%. The Board also approves an amendment to the Derivatives Policy to clarify the use of forwards.***

**Retirement Savings Plan – Self Directed Brokerage Window:** Ms. Herman discussed expanding the investment options available in the Retirement Savings Plan to include a self directed brokerage window. Staff recommends the window be limited to the purchase and sale of mutual funds. Fidelity has agreed to waive any annual fee to participants and their relationship with numerous fund families would provide participants with a broad array of mutual funds with no charge for the transaction. The Board discussed various issues related to the self directed brokerage window including: if a limit should be placed on the percentage of the participant's balance that can be traded through the window, whether mandatory counseling should be required prior to participation, and if adding this investment option was within the Board's authority. After further discussion, the Board agreed to defer action to allow the Investment Committee to address the issues raised.

**Currency Management:** Ms. Herman presented an updated analysis of currency management strategies reflecting that the management of currency can be a potential added source of diversification and return for the Plan. The Board unanimously approved the following resolution:

**0512-03      *Resolved, That the Board approve issuing an RFI to potential currency overlay managers in January 2006.***

**Fund Performance Review and Investment Outlook:** Mr. Weiss updated the Board on the Fund's performance through October 31 and highlighted current market issues and concerns. Mr. Brubaker introduced the new format for the performance reports of September 30, 2005 and noted the ERS' total fund performance continued to be ranked in the top tier of Wilshire's Public Fund Universe. The ERS performance for the one year ended September 30 ranked in the top third (26<sup>th</sup> percentile) of the public funds surveyed. He noted the three year performance ranks at the 10<sup>th</sup> percentile or better than 90% of peers. The Board reviewed the performance results and recent updates for the funds offered in the Retirement Savings Plan and Deferred Compensation Plan.

#### ***ADMINISTRATIVE COMMITTEE REPORT***

Ms. Kaiser presented to the Board the report of Administrative Committee activities and items recommended for Board action.

**Preliminary FY 06 Estimated & FY 07 Budgets – all Plans:** Ms. Kaiser presented the annual budget for the three retirement plans noting the actual FY 05 expenses were 12.2% below the approved budget due primarily to lower than anticipated salary costs, due diligence and educational expenses, and office related costs. FY 06 expenses are projected to be 4.1% lower than the approved budget due to lower than anticipated outside legal costs and office management expenses. The preliminary FY 07 expenses are projected at \$761,200, an increase of 16.4%, from the FY 06 approved budget. The increase is primarily the result of filling the fourth staff position that has been vacant for the past few years. After discussion, the Board unanimously approved the following resolution:

**0512-04      *Resolved, That the Board approves Board-related expenses associated with the ERS, RSP and Deferred Compensation budgets for FY06 and FY07, to be updated for salary and benefit changes as supplied by the Office of Management and Budget.***

**Retirement Savings Plan – Administrative Fee:** Ms. Kaiser discussed the analysis of the Retirement Savings Plan's income and expenses items as presented by staff. Ms. Herman noted the surplus cash balance in the Plan is projected to grow to \$1,300,000 by June 30, 2006 primarily due to a one-time forfeiture of employer contributions and investment earnings of \$670,000. Ms. Herman discussed the IRS regulations related to the accumulation of cash within defined contribution plans and recommended the Board reduce the Plan's cash balance in FY07 by \$800,000 to pay the employer's contribution and that there be no administrative fee charged in FY07. After discussion, the Board approved the following resolution (Mr. Renne opposed, Mr. Bader and Mr. Buddle abstained):

**0512-05      *Resolved, That the Board approves the use of \$800,000 of the Retirement Savings Plan's surplus cash balance to pay the employer's contribution during the Plan's next calendar year and that there be no administrative fee charged in FY 07.***

**Amended Bylaws:** Ms. Kaiser presented the amended Bylaws which included changes due to the increase in the number of Board members and expanding the duties of the committees. The Board unanimously approved the following resolution:

**0512-06      *Resolved, That the Board approves the Bylaws as amended. The Bylaws as presented will be approved at the March Board meeting.***

**Amended Service Provider Procurement Policy:** Ms. Kaiser discussed the proposed amendments to the Service Provider Procurement Policy which require the committees to recommend a vendor to the Board, clarification of the selection process, and updated evaluation criteria. The Board discussed the need for the Board to interview vendors prior to selection. The Board unanimously approved the following resolution:

**0512-07      *Resolved, That the Board approves the Service Provider Procurement Policy as amended.***

**Amendment to Vendor Agreements:** Ms. Kaiser presented an amendment to the investment manager/vendor agreements to clarify the manager's responsibilities for compliance with the County's ethical standards and reporting requirements for contributions as defined in the County

and Maryland Codes. Ms. Herman noted that the amendment requires the investment manager/vendor to disclose annually to the Board any payment, gift, benefit or contribution, or request therefor, that the vendor has provided to or on behalf of a Board member, Montgomery County employee, or an organization that is specifically authorized to have input to a Board appointment. The Board discussed the issues raised, including the definition of “solicitation” and the issue of political contributions. After further discussion, the Board agreed to table action on the resolution to allow time for further research to be conducted on the issues raised.

**Board’s FY 05 Annual Report:** Ms. Kaiser presented the Board’s FY 05 annual report on the retirement plans. Ms. Herman noted that the Annual Report will be released after KPMG completes the annual audit. Employees will be notified of the availability of the report by broadcast email and retirees will receive a message on their January 1, 2006 pay stub. The Board approved the issuance of the report.

**RFI – Consultant Services:** Ms. Herman informed the Board that Wilshire’s contract will expire in June 2006 and she requested the Board approve issuing an RFI for investment consulting services. After discussion, the Board unanimously approved the following resolution:

**0512-08      *Resolved, That the Board approves issuing an RFI for investment consulting services.***

**Outside Legal Services:** Ms. Kaiser discussed the Memorandum of Understanding between the Board and the County Attorney’s Office which outlines the authority for the Board to hire outside counsel, as it deems necessary, and the procedure to be followed. After discussion, the Board approved the following resolution (Mr. Renne, Mr. Bader and Mr. Buddle opposed):

**0512-09      *Resolved, That the Board approves the Memorandum of Understanding on the use of outside legal counsel.***

**Retirement Savings Plan – County Code Amendment:** Ms. Herman presented a proposed amendment to the County Code that will allow for an installment distribution option in the Retirement Savings Plan. After discussion, and a question regarding the Board’s authority to add the option, the Board tabled approval of the resolution pending further information from the County Attorney’s Office.

The Board discussed items on the workplan recommending no changes.

There being no further business of the Board, the open meeting session was adjourned at 12:15 p.m.

Respectfully submitted,

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Gino Renne, Secretary